

**MINUTES
BOARD OF TRUSTEES OF THE
PUBLIC EMPLOYEES' RETIREMENT FUND
143 West Market Street, Suite 500
Indianapolis, IN 46204
June 13, 2003**

REGULAR SESSION

Trustees Present

Jonathan Birge, Chair
Richard Doermer, Vice Chair
Garland E. Ferrell
Connie R. Thurman
Nancy Turner

PERF Staff

Craig Hartzler, PERF Executive Director
Caroline Bradley, PERF Internal Auditor
Diann Clift, PERF MIS Director
Patricia Gerrick, PERF Chief Investment Officer
Ed Gohmann, PERF Fund Counsel
Pat Henn, PERF Staff Auditor
Leisa Julian, PERF Chief Financial Officer (designate)
Bruce Kimery, PERF Chief Benefits Officer
Sandy Gettle, Minute Writer

Others Present

Mary Beth Braitman, Ice Miller
Stephanie Braming, William M. Mercer Investment Consulting
Robert Brown, AFSCME
Doug Todd, McCready & Keene, Inc.
Scarlettt Ungurean, William M. Mercer Investment Consulting

ITEMS MAILED TO THE BOARD PRIOR TO MEETING.

- A. Agenda of June 13, 2003
- B. Minutes:
 - May 9, 2003 Board of Trustees Meeting
- C. Audit Meeting Agenda
- D. Risk Analysis Time Line
- E. Risk Assessment Criteria
- F. PERF Management Discussion and Analysis for year-to-date financial reports as of May 2003
- G. PERF Schedule of Administrative Expenses and Investment Fees

I. APPROVAL OF MINUTES.

MOTION duly made and carried to approve the Minutes of the May 9, 2003 Board of Trustees Meeting.

Proposed by: Nancy Turner
Seconded by: Connie Thurman
Votes: 5 for, 0 against, 0 abstentions.

Craig Hartzler furnished draft copies of the May 30, 2003 Board meeting to be approved or corrected at the next meeting.

II. OLD BUSINESS.

A. Operations Update. Mr. Kimery provided an overview of Operations and Benefits.

- Workload. Charts provided showed continued improvement of timely payment rates. This was the time of year when the number of retirement and refund applications increased. Processing of the State Retirement Incentive Plan was also time-consuming. The 40-60 day goal for first payment has not yet been met, although many payments were now being made within 60 to 75 days.
- State Retirement Incentive Plan. A total of 1160 applications have been received, 806 assigned, and 404 have completed the certification process for the first bonus payment scheduled to be paid during the first week of July. The State Personnel Department had established a cutoff date to assure time to certify service. PERF still does not have all the applications so some people will not get their bonus payment on time.
- Membership Records. A backlog elimination plan has been developed and implemented, and the backlog should continue to decrease.
- Customer Service Satisfaction. Mr. Kimery noted that high evaluations continue to be received for counseling sessions.
- Agency Staffing. There are 89 full-time people, including two who start next week. Currently, there are ten retirement counselors and another counselor will join PERF in July.
- SIRIS. Testing continues with 292 PIRs already tested and 90 to be completed. It is costly in terms of staff time. The contractor was given a list of 150 people who were paid manually. Since March 1, 1,166 manual checks have been cut. Mr. Hartzler added that this problem must be corrected as it heightens the security risk. Staff is frustrated with the situation, and the risk of error increases with manual processing.

- Second Retirements. The SIRIS system is unable to process second retirements, and processing them manually is a challenge.
- Request for Proposal. Offers have been reviewed for programming legislative changes, and contract negotiations should be in progress by the end of the month.
- Disaster Recovery. PERF is in contract negotiations with a firm to provide a hot/cold site so that in case of disaster, PERF would be able continue operating. Mr. Hartzler added that PERF must have this back-up capacity in place.
- Mail. Out of approximately 250,000 pieces, 45 crates were returned 'non-deliverable'. Ms. Thurman suggested using U.S. Post Office software for checking addresses. Mr. Kimery said that PERF's contractor had the capability to perform this function, but had not been contracted to carry out this function. The returned mail consisted of quarterly statements, newsletters, investment change forms, direct deposit notices, and one check.
- Building. Mr. Kimery noted that blueprints had been sent to the company being considered for physical security. More detailed plans will be discussed at a meeting later that week. It was noted that PERF employees were generally positive about the change. The PERF building is on the Historic Register; restoration of the original façade is being evaluated.

III. NEW BUSINESS

- A. Contribution Rates. Mr. Todd provided an overview of the criteria for determining contribution rates and explained the rationale for his recommendation for a State employer contribution rate of 5.6% for July 1, 2003 to June 30, 2004. The recommendation included a reamortization of actuarial experience for political subdivision, and increases from the reamortization will be phased in over a four-year period, with the exception of two small units. Mr. Hartzler noted that the actuarial review carried out by Milliman had concurred that with the standards and methodologies used by PERF's actuary McCready and Keene to effect valuations and to calculate rates. The State Budget Director had also accepted this recommendation for the contribution rate.

MOTION duly made and carried to approve the modification to PERF's procedure for calculating contribution rates, both at the state level and the municipality level, and to adopt the specific rates for the state for the forthcoming year at 5.6% and for the municipalities as outlined (Exhibit A distributed 6/13/03).

Proposed by: Dick Doermer
Seconded by: Garland Ferrell
Votes: 5 for, 0 against, 0 abstentions.

B. Audit and Budget Update.

1. Old Business.

- Caroline Bradley updated the Board regarding comments made by the State Board of Accounts (SBA). She noted that noted that PERF had hired Bob Lofland, a former State Board of Accounts auditor. The three main topics in the SBA comments were Reserve Reconciliation, Financial Accounting and Reporting, and Checking Account Reconciliation. To address Financial Accounting and Reporting, schedules are in place but have not yet been presented to the SBA to determine acceptability. Progress has been made on Reserve Reconciliation. A banking RFP is being considered to resolve issues with the Checking Account Reconciliation; too much cash sitting in the account was the greatest issue. Ms. Bradley said it was uncertain whether all three issues would be resolved in time to avoid becoming a repeat comment.
- Ms. Bradley referred to the Risk Analysis Timeline and outlined plans to determine an audit schedule for the next year, with a goal to hit the highest risk areas on audits annually. She displayed the Risk Assessment Criteria, a weighted questionnaire used to interview all department heads to determine highest risk for the organization as a whole.

2. New Business.

- Ms. Bradley introduced Patrick Henn, the new Staff Auditor.
- The audit schedule will be sent to the Board in July for review before the next meeting.
- Mr. Kimery announced the departure of David Ellis, who is moving to a private sector job. The vacancy will be filled as soon as possible. Interviews are being conducted for a Staff Attorney, Call Center representatives, retirement counselors and other positions.

IV. REPORT OF EXECUTIVE DIRECTOR.

- A. Investment Committee Recommendation. Mr. Hartzler asked if the Trustees wished to adopt the Investment Committee's proposal to transfer management of the international portfolio from Fidelity to BGI. The net effect of the transfer would be to increase PERF's investment in emerging markets by about \$7 million, which is still under the planned allocation level.

MOTION duly made and carried to approve the recommendation of the Investment Committee.

Proposed by: Dick Doermer
Seconded by: Garland Ferrell
Votes: 5 for, 0 against, 0 abstentions.

Mr. Doermer noted that Mercer and Patricia Gerrick had recommended that PERF retain Capital Guardian as manager for the global growth portfolio, but had considered that Capital Guardian was not as suitable for the international emerging market. The Board agreed to resolve this matter at the next meeting.

- B. Indianapolis Star. Mr. Hartzler noted the upcoming article to be published in the Indianapolis Star.
- C. Pension Relief. Mr. Hartzler reported that PERF would distribute \$70 million in the K portion and \$30-\$35 million in the M portion to 129 cities and towns.
- D. Recordkeeping. An RFP had been issued to develop the pilot plan as mandated by a law passed in the last General Assembly. The plan must be in place by the first of the year. Mercer is PERF's consultant for the project.
- E. Information Technology. Mary Beth Braitman and her colleagues prepared a handout that summarized one approach to maintaining SIRIS when the Covansys contract ends. A new not-for-profit company with TRF is being considered, with a target date of January 1, 2004.
- F. Security RFP. Mr. Hartzler requested authorization to engage in contract negotiations with Computer Sciences Corporation (CSC). He recommended an eight-week cyber security/physical security assessment by CSC, at a cost of approximately \$200,000. Mr. Kimery said funds were available in the budget.

MOTION duly made and carried to authorize contract negotiations with Computer Sciences Corporation.

Proposed by: Connie Thurman
Seconded by: Nancy Turner
Votes: 5 for, 0 against, 0 abstentions.

- V. DATE OF NEXT MEETING. The next meeting will be held on July 11, 2003.
- VI. ADJOURNMENT. There being no other business, the meeting was adjourned.